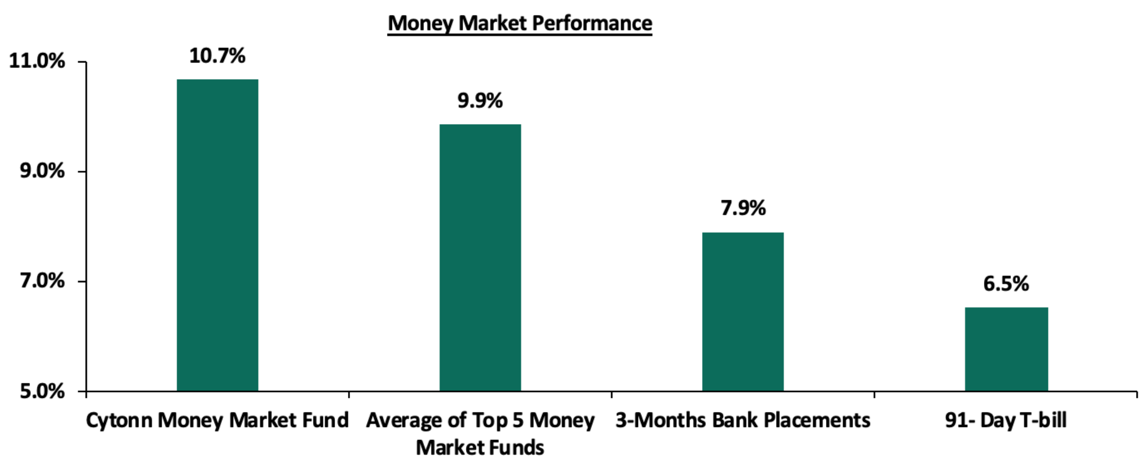
Real Estate Bubble, & Cytonn weekly #28/2021

Fixed Income

Money Markets, T-Bills & T-Bonds Primary Auction:

During the week, T-bills were undersubscribed, with the overall subscription rate coming in at 80.3%, a decline from the 146.0% recorded the previous week attributable the concurrent primary bonds issue. The 182-day paper recorded the highest subscription rate, receiving bids worth Kshs 11.3 bn against the offered amount of Kshs 10.0 bn, translating to a subscription rate of 113.3%, a decline from the 194.1% recorded the previous week. The subscription rate for the 364-day paper increased to 52.7%, from 43.2% recorded the previous week, while the subscription rate for the 91-day paper declining to 66.8%, from 282.7% recorded the previous week. The yields on all the three papers declined; with the 91-day, 182-day and 364-day paper declining by 9.4 bps, 11.7 bps and 7.0 bps, to 6.5%, 7.0% and 7.5%, respectively. The government continued to reject expensive bids, accepting Kshs 19.2 bn out of the Kshs 19.3 bn worth of bids received, translating to an acceptance rate of 99.6%.

In the Primary Bond Market, the three bonds reopened by the government for the month of July recorded an oversubscription of 194.9% attributable to the high liquidity in the market during the duration of the bond sale. The government sought to raise Kshs 60.0 bn in the three-tranche bond and accepted Kshs 79.9 bn out of the Kshs 116.9 bn worth of bids received, translating to an acceptance rate of 68.4%. Investors preferred the shorter dated paper, FXD1/2012/15, with an effective tenor to maturity of 6.2 years, which received bids worth Kshs 48.8 bn, , FXD1/2021/25 received bids worth Kshs 39.9 bn while FXD1/2018/15 received bids worth Kshs 28.2 bn. The coupons for the bonds were 11.0%, 12.7% and 13.9%, and the weighted average yield rates during the issues were 11.6%, 12.6% and 13.9% for FXD1/2012/15, FXD1/2018/15 and FXD1/2021/25, respectively.



In the money markets, 3-month bank placements ended at 7.9% (based on what we have been offered by various banks), while the 91-day T-bill declined by 9.4 bps to 6.5% from 6.6%, recorded the previous week. The average yield of the Top 5 Money Market Funds increased marginally by 0.1% points to 9.9% from 9.8%, recorded the previous week, while the yield on the Cytonn Money Market (CMMF) increased by 0.5% points to 10.7% from 10.2%, recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 16th July 2021:

Money Market Fund Yield for Fund Managers as published on 16th July 2021

Rank	Fund Manager	Daily Yield	Effective Annual Rate
1	Cytonn Money Market Fund	10.14%	10.68%
2	Nabo Africa Money Market Fund	9.52%	9.95%
3	Zimele Money Market Fund	9.56%	9.91%
4	Madison Money Market Fund	8.97%	9.39%
5	CIC Money Market Fund	9.04%	9.37%
6	Sanlam Money Market Fund	8.94%	9.35%
7	Orient Kasha Money Market Fund	8.89%	9.27%
8	Co-op Money Market Fund	8.55%	8.92%
9	GenCapHela Imara Money Market Fund	8.40%	8.76%
10	Dry Associates Money Market Fund	8.31%	8.63%
11	British-American Money Market Fund	8.21%	8.53%
12	ICEA Lion Money Market Fund	7.99%	8.32%
13	NCBA Money Market Fund	8.01%	8.31%
14	Apollo Money Market Fund	8.40%	8.27%
15	Old Mutual Money Market Fund	6.74%	6.95%
16	AA Kenya Shillings Fund	6.73%	6.94%

Source: Business Daily

Liquidity:

During the week, liquidity in the money market eased, with the average interbank rate decreasing to 4.2% from 4.9% recorded the previous week, partly attributable to government payments, including Term Auction Deposits (TADs) maturities of Kshs 81.3 bn which offset the settlements of government securities and tax remittances. The average interbank volumes traded declined by 58.4% to Kshs 4.6 bn, from Kshs 11.0 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on the Eurobonds recorded a mixed performance. The yields on the 10-year bond issued in 2014 remained unchanged at 3.3%, while the yields on the Eurobonds issued in 2018, 2019 and 2021 declined by 0.1% points as shown in the table below:

Kenya Eurobond Performance

	2014	2018		2019		2021
Date	**10-year issue**	**10-year issue**	**30-year issue**	**7-year issue**	**12-year issue**	**12-year issue**
31-Dec-20	3.9%	5.2%	7.0%	4.9%	5.9%	-
30-Jun-21	3.3%	5.4%	7.4%	4.8%	6.3%	6.3%
09-Jul-21	3.3%	5.4%	7.4%	4.9%	6.3%	6.3%
12-Jul-21	3.3%	5.4%	7.4%	4.8%	6.3%	6.3%
13-Jul-21	3.3%	5.4%	7.4%	4.8%	6.3%	6.3%
14-Jul-21	3.3%	5.4%	7.4%	4.8%	6.3%	6.2%
15-Jul-21	3.3%	5.3%	7.3%	4.8%	6.2%	6.2%
16-Jul-21	3.3%	5.3%	7.3%	4.8%	6.2%	6.2%
Weekly Change	**0.0%**	**(0.1%)**	**(0.1%)**	**(0.1%)**	**(0.1%)**	**(0.1%)**
MTD Change	**0.0%**	**(0.1%)**	**(0.1%)**	**0.0%**	**0.0%**	**(0.1%)**
YTD Change	**(0.6%)**	**0.1%**	**0.3%**	**(0.1%)**	**0.3%**	**-**

Source: Reuters

Kenya Shilling:

During the week, the Kenyan shilling depreciated marginally by 0.2% against the US dollar closing at Kshs 108.2, from 108.0 recorded the previous week, attributable to increased dollar demand. On a YTD basis, the shilling has appreciated by 0.9% against the dollar, in comparison to the 7.7% depreciation recorded in 2020. Despite the recent appreciation of the shilling, we expect the shilling to remain under pressure in 2021 as a result of:

a. Rising uncertainties in the global market due to the Coronavirus pandemic, which has seen investors continue to prefer holding their investments in dollars and other hard currencies and commodities,
b. The widened current account position which increased by 0.3% points to 5.5% of GDP in the 12 months to May 2021 from 5.2% of GDP for a similar period in 2020 attributable to lower service receipts, which offset the increased receipts from exports and remittances, and,
c. Demand from merchandise traders as they beef up their hard currency positions in anticipation for more trading partners reopening their economies globally.

The shilling is however expected to be supported by:

i. The Forex reserves, currently at USD 9.6 bn (equivalent to 5.9 months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover, and the EAC region’s convergence criteria of 4.5-months of import cover, and,
ii. Improving diaspora remittances evidenced by a 6.0% y/y increase to USD 305.9 mn in June 2021, from USD 288.5 mn recorded over the same period in 2020, which has continued to cushion the shilling against further depreciation.

Weekly Highlights:

I. Fuel Prices

During the week, the Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum wholesale and retail prices for fuel prices in Kenya effective 15th July 2021 to 14th August 2021. Below are the key take-outs from the statement:

- The price of Super Petrol, Diesel and Kerosene remained unchanged at Kshs 127.1 per litre, Kshs 107.7 per litre, and Kshs 97.9 per litre, respectively, despite increased landed cost of imported crude. Notably, this is the fourth consecutive month that the Diesel and Kerosene prices have remained unchanged,
- Below is the summary of the performance of the imported petroleum during the month
    i. The increase in the average landed cost of imported Super Petrol by 4.8% to USD 520.0 per cubic meter in June 2021, from USD 496.1 per cubic meter in May 2021,
    ii. The increase in the average landed costs for Diesel by 3.7% to USD 479.0 per cubic meter in June 2021, from USD 462.0 per cubic meter in May 2021,
    iii. The average landed cost for kerosene, remained unchanged at USD 449.4 per cubic meter in June 2021,
    iv. The decline in the Free on Board (FOB) price of Murban crude oil in June 2021 by 6.4% to USD 63.4 per barrel, from USD 67.7 per barrel in May 2021, and,
    v. The Kenyan shilling depreciated by 0.2% against the dollar to close at Kshs 107.8 in June 2021, from Kshs 107.6 in May 2021.

We expect pressure on the inflation basket going forward given the projected increase in global fuel prices which have increased by 45.6% on a year to date to USD 73.1 per barrel this week, from USD 50.2 in December 2020. These are the highest prices we have seen over the last two years. The rise in global prices is attributable to the rise in demand for oil in tandem with the reopening of global economies, with the rise in demand outpacing supply growth despite Organization of the Oil Exporting Countries (OPEC) agreeing to ease supply cuts.

Rates in the fixed income market have remained relatively stable due to sufficient levels of liquidity in the money markets, coupled with the discipline by the Central Bank to reject expensive bids. The government is 36.8% ahead of its prorated borrowing target of Kshs 38.0 bn having borrowed Kshs 52.0 bn in FY'2021/2022. We expect the government to fall short of its revenue collection target in FY'2021/2022 leading to a higher budget deficit as a percentage of the GDP, than the projected 7.5%. However, despite the projected high budget deficit and the lower credit rating from S&P Global to 'B' from 'B+', we believe that the monetary support from the IMF and World Bank will mean that the interest rate environment may stabilize since the government will not be desperate for cash.